



6714-01-P

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 337

RIN 3064-AF02

Interest Rate Restrictions on Institutions That Are Less Than Well Capitalized

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice of proposed rulemaking; supplemental notice.

SUMMARY: On September 4, 2019, the Federal Deposit Insurance Corporation (FDIC) issued a notice of proposed rulemaking with request for comments on proposed revisions to its regulations relating to interest rate restrictions that apply to less than well capitalized insured depository institutions. The FDIC is supplementing that notice of proposed rulemaking with an updated regulatory flexibility analysis to reflect changes to the Small Business Administration's monetary-based size standards which were adjusted for inflation as of August 19, 2019.

DATES: Comments on the updated regulatory flexibility analysis must be received on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments by any of the following methods:

- *FDIC Website:* <https://www.fdic.gov/regulations/laws/federal/>. Follow instructions for submitting comments on the agency website.
- *E-mail:* Comments@fdic.gov. Include RIN 3064-AF02 on the subject line of the message.

- *Mail*: Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.
- *Hand Delivery to FDIC*: Comments may be hand-delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7 a.m. and 5 p.m.
- *Federal eRulemaking Portal*: <http://www.regulations.gov>. Follow the instructions for submitting comments.

Please include your name, affiliation, address, e-mail address, and telephone number(s) in your comment. All statements received, including attachments and other supporting materials, are part of the public record and are subject to public disclosure. You should submit only information that you wish to make publicly available.

Public Inspection: All comments received will be posted generally without change to <https://www.fdic.gov/regulations/laws/federal/>, including any personal information provided.

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION:

On September 4, 2019, the FDIC issued a notice of proposed rulemaking with request for comments on proposed revisions to its regulations relating to interest rate restrictions that apply to less than well capitalized insured depository institutions. (See 84 FR 41910 (September 4, 2019).) The FDIC is supplementing that notice of proposed

rulemaking with an updated regulatory flexibility analysis to reflect changes to the Small Business Administration's monetary-based size standards which were adjusted for inflation as of August 19, 2019. (See 84 FR 34261 (July 18, 2019).)

Updated Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) requires that, in connection with a proposed rule, an agency prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of the proposed rule on small entities.¹ However, a regulatory flexibility analysis is not required if the agency certifies that the proposed rule will not have a significant economic impact on a substantial number of small entities, and publishes its certification and a short explanatory statement in the Federal Register together with the proposed rule. The Small Business Administration (SBA) has defined "small entities" to include banking organizations with total assets of less than or equal to \$600 million that are independently owned and operated or owned by a holding company with less than or equal to \$600 million in total assets.²

Generally, the FDIC considers a significant effect to be a quantified effect in excess of 5 percent of total annual salaries and benefits per institution, or 2.5 percent of total noninterest expenses. The FDIC believes that effects in excess of these thresholds typically represent significant effects for FDIC-insured institutions.

The FDIC is proposing revisions to its regulations relating to interest rate restrictions that apply to less than well capitalized insured depository institutions, by

¹ 5 U.S.C. 601 et seq.

² The SBA defines a small banking organization as having \$600 million or less in assets, where an organization's "assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year." See 13 CFR 121.201 (as amended by 84 FR 34261, effective August 19, 2019). In its determination, the "SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates." See 13 CFR 121.103. Following these regulations, the FDIC uses a covered entity's affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the covered entity is "small" for the purposes of RFA.

amending the methodology for calculating the national rate and national rate cap. The proposal would also modify the current local rate cap calculation and process.

Specifically, the proposal defines the national rate for a deposit product as the average rate for that product, where the average is weighted by domestic deposit share. The proposed national rate cap is the higher of (1) the rate offered at the 95th percentile of rates weighted by domestic deposit share or (2) the proposed national rate plus 75 basis points.

Because the FDIC's experience suggests some institutions compete for particular products within their local market area, the proposal would continue to provide a local rate cap process.

Specifically, the proposal would allow less than well capitalized institutions to provide evidence that any bank or credit union in its local market offers a rate on particular deposit product in excess of the national rate cap. If sufficient evidence is provided, then the less than well capitalized institution would be allowed to offer 90 percent of the competing institution's rate on the particular product. For the reasons discussed below, the FDIC certifies that the proposed rule will not have a significant economic effect on a substantial number of small entities.

Based on March 31, 2019, Call Report data, the FDIC insures 5,371 depository institutions, of which 4,004 are considered small entities for the purposes of RFA.³ As of March 31, 2019, 20 small, FDIC-insured depository institutions were less than well capitalized.⁴ This represents less than two-fifths of one percent of all FDIC-insured institutions as of March 31, 2019, and approximately one-half of one percent of small,

³ March 31, 2019, FFIEC Call Report.

⁴ *Id.* The 20 institutions do not include any quantitatively well capitalized institutions that may have been administratively classified as less than well capitalized.

FDIC-insured institutions. For 17 small institutions that were less than well capitalized as of March 31, 2019, and that reported rates to a private data aggregator, FDIC analysts compared the national rate caps calculated under the current methodology with the national rate caps which would have been in effect under the proposal during the month of March across 11 deposit products.⁵ As described in more detail below, the analysis shows that the proposed national rate caps are less restrictive than the current national rate caps, and would reduce the likelihood that less than well capitalized institutions would need to avail themselves of the local rate cap determination process.

Five of the 17 (just under 30 percent) less than well capitalized institutions for which data were available reported offering rates above the national rate caps calculated under the current methodology for seven out of the 11 products considered.⁶ Under the proposed methodology, three institutions reported rates above the national rate caps on two products. Thus, the number of deposit products with rates constrained by the national rate cap is reduced for all five institutions, and two of those institutions would be relieved of the need to avail themselves of the local rate cap determination process.

For the 3-month, 6-month, 36-month, and 48-month CD products, two less than well capitalized small institutions reported offering rates above the national rate caps calculated under the current methodology. On average, the reported offering rates were 6, 13, 29, and 58 basis points above the national rate caps, respectively.

⁵ The 11 products are savings accounts, interest checking accounts, money market deposit accounts, 1-month, 3-month, 6-month, 12-month, 24-month, 36-month, 48-month, and 60-month CDs. Jumbo and non-jumbo rate caps reported for the week of March 4, 2019, were averaged for each of the 11 products to calculate a single rate cap per product under the current methodology. (<https://www.fdic.gov/regulations/resources/rates/historical/2019-03-04.html>).

⁶ This is not meant to suggest that these institutions are not in compliance with the national rate caps, but rather that they have sought and received local rate determinations that allow them to offer certain products at rates above the national caps.

Three institutions reported offering rates above the national rate caps calculated under the current methodology for the 12-month and 24-month CD products, and four reported offering rates above the national rate caps as currently calculated for the 60-month CD product. Rates offered on the 12-month and 24-month CD products were 37 and 45 basis points above the national rate caps, on average. Rates offered on the 60-month CD product averaged 26 basis points above the national rate cap for that product.

Across all deposit products offered at rates above the national rate caps calculated under the current methodology, the rates offered were 30 basis points above the national rate caps on average.

Had the national rate caps in effect at the time been calculated under the proposed methodology, then two less than well capitalized small institutions would have reported offering rates that averaged 11 basis points above the national rate cap for the 3-month CD product, and one institution would have reported offering a rate three basis points above the national rate cap for the 48-month CD product.

Across all deposit products offered at rates above the national rate caps calculated under the proposed methodology, the rates offered were 7 basis points above the national rate caps on average.

No less than well capitalized small institution reported offering a rate above the national rate caps calculated under the current or proposed methodology for savings, interest checking, MMDA, or 1-month CD products during the timeframe considered.

The number of small, less than well capitalized institutions with offered rates above the national rate caps falls from five under the current methodology to three under

the proposed methodology. Thus, the number of small less than well capitalized institutions that need to rely on a local rate cap is expected to fall.

The FDIC cannot more precisely quantify the effects of the proposed rule relative to the current methodology because it lacks data on the dollar amounts placed in deposit products broken down by the rates offered. However, few small institutions are less than well capitalized, and most of those small, less than well capitalized institutions for which data were available reported rates across the 11 deposit products considered that were below the national rate caps as calculated under both the current and proposed methodologies. For the few less than well capitalized institutions as of March 31, 2019 whose deposit interest rates are constrained by the current national rate cap but not the proposed rate cap, the effect of the rule would be burden reducing in the sense of reducing the need for local rate cap determinations.

Based on the foregoing information, the FDIC certifies that the proposed rule will not significantly affect a substantial number of small entities. The FDIC welcomes comments on its analysis. Specifically, what data would help the FDIC better quantify the effects of the proposal compared with the current methodology?

Federal Deposit Insurance Corporation.

Dated at Washington, DC, on September 26, 2019.

Robert E. Feldman,
Executive Secretary.

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